Press Release
MAN AG

MAN AG Annual General Meeting
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Report of CEO Håkan Samuelsson

It's the spoken word that counts

MAN AG
Landsberger Str. 110
80339 München
(Munich, Germany)

Corporate Communications
Wieland Schmitz

Public Relations
Andreas Lampersbach

Phone +49. 89. 36098-111
public.relations@man.eu
www.man.eu

Content

1. Welcome / introduction

Stockholders, Ladies and Gentlemen on behalf of the Executive Board, welcome to MAN's stockholders' meeting for the fiscal year 2006. I would also like to welcome our guests and representatives from the media.

I am delighted to present to you today a most successful fiscal year—the most successful in the long history of the MAN Group! From a strategic aspect, 2006 was also highly eventful. But more on this subject later on.

In a nutshell, the following were the determining factors in 2006:

- We sold our printing machinery subsidiary MAN Roland Druckmaschinen, this move representing a major step in the concentration of the MAN Group.

- We generated in 2006 an operating profit of 1.1 billion euros, equivalent to a return on sales of 8.5 percent, both all-time highs. Our return on sales is thus also well above the previously set target.

- The background for this solid performance is the highly hospitable economy on our markets. In addition, the steps taken in recent years to cut costs and boost efficiency have taken effect. As a consequence, we are going to present to you today profitability benchmarks that have been revised upward.

- The last of the major factors was our initiative to combine with our Swedish competitor Scania. We had submitted an offer to Scania stockholders so that together we could grow more swiftly in the global commercial vehicle business and harness substantial synergies. At the end of the day, however, we failed to win over Scania's major stockholders to our proposal. Nonetheless, all concerned fundamentally endorse the industrial concept behind the combination. We are now open to talks as to how we can agree on materializing this concept while respecting the interests of all parties.

These, ladies and gentlemen, were the milestones of the past fiscal year.

2. Business in 2006

I have already mentioned the healthy economy favoring our business. 2006 was a period in which the international economy gained pace. The transport and energy-related markets, in particular, accelerated. In shipbuilding, the biggest sales market for our large diesel engines, the boom continued. Energy industry companies likewise invested heavily, to the advantage of our Turbo Machinery and Industrial Services business areas.

In the figures reported for 2006 and mentioned in my following remarks, we have eliminated MAN Roland and adjusted the prior-year comparatives. Another adjustment was required by our decision to contribute MAN Ferrostaal's steel trading business to a partnership and retroactively disclose it as discontinued operation.

Within this favorable economic environment, order intake advanced 16 percent to 16.6 billion euros. Of this amount, megacontracts together worth 2.2 billion euros again played a major role—for example, the follow-up order placed by the British Ministry of Defence for trucks at a value of 262 million euros. Toward the end of 2006, MAN Ferrostaal was awarded a contract worth 800 million euros for constructing a chemical plant in Trinidad. Excluding these megacontracts, orders booked during the period mounted by 24 percent. At 75 percent, non-German business was approximately at the prior-year level.

All business areas achieved double-digit growth rates in order intake, most notably MAN TURBO, with 76 percent, especially due to robust demand in the energy sector.

We now come to sales: with production capacities stretched to their limits, sales rose clearly by 15 percent to 13 billion euros. Of this amount and with a powerful surge of 18 percent, Commercial Vehicles contributed 8.7 billion euros.

Diesel Engines improved on a very high prior-year level by 8 percent to reach 1.8 billion euros. The highest growth rate was generated by Turbo Machinery, up 31 percent to 0.9 billion euros.

Rising 17 percent to 9.7 billion euros, non-German sales easily outpaced domestic, which climbed 9 percent to 3.4 billion euros. As a consequence, the non-German share of sales again increased, from 73 to 74 percent.

With order intake up at this rate, our order backlog again grew, this time to 11.3 billion euros, a new all-time high, and 33 percent above the figure for year-end 2005.

This growth was also reflected in workforce numbers. Worldwide, we had just under 54,000 employees at the end of 2006, up from around 51,000 the year before. In the wake of its growth strategy, the MAN Group created many new jobs last year, in Germany, too. Among the factors making this possible are the more flexible working hour agreements concluded with the employee representatives, at the Munich and Oberhausen plants for example. The resulting reduction in production costs hones our competitive edge on the world market while, at the same time, securing jobs within Germany.

Our flexibility is also enhanced through temporary and loaned manpower, whose share has increased, rising in 2006 by more than 1,000 to around 3,500.
I would like to take this opportunity to express my thanks to all the employees of the MAN Group who have faced the steep challenges of the year with commitment and who have made possible the growth and performance about which I will now report to you.

With an operating profit of 1.1 billion euros, we achieved the best result in the history of our group and, for the first time, crossed the billion euros threshold. The operating profit outgrew fiscal 2005 by 431 million euros or 64 percent.

Our returns have thus improved considerably. With a return on sales of 8.5 percent, we not only achieved for the first time our target of 6 percent but clearly surpassed it. All business areas delivered higher profits compared with the previous year and exceeded their individual benchmarks. The highest advance was shown by Diesel Engines whose operating profit of 229 million euros was almost double and whose return on sales of 12.7 percent the highest. In absolute terms, Commercial Vehicles contributed the highest profit, revving it up by 201 million euros to 698 million euros, with a return on sales advancing to 8.0 percent. Turbo Machinery raised its return on sales to 7.8 percent and Industrial Services to 8.6 percent.

The return on capital employed likewise surged: for the MAN Group as such the 28 percent represented a record figure, again above our benchmark.

Thanks to this commendable performance, the Group's financial position, too, remained pleasant—after a higher cash outflow for additional tangible assets and an increased financing volume of Financial Services, but before the Scania stock acquisition—the free cash flow came to 622 million euros. As you will remember, we purchased some 14.9 percent of the Scania shares during the public offering period and thus spent close to 1.2 billion euros.

I'd also like to mention the incremental endowment for our pension plan: we transferred another round 350 million euros to cover our pension obligations. We had begun with providing this cover the year before only and meantime upgraded the cover ratio to 53+ percent.

The price of your stock also showed a sustained strong performance in 2006: with an aggregate yield of 55 percent, MAN easily outperformed the DAX, which gained 22 percent.

Long term too, we have done well: whereas for ten years the DAX has risen by a yearly average of 8.6 percent, MAN common stock has grown by a good 17 percent annually.

The net income surge to 925 million euros meant earnings per share of 5.05 euros, following the 2.75 euros for 2005.

Ladies and gentlemen, so that 2006 will also be a good year for you, our stockholders, I am pleased to propose to you today on behalf of the Supervisory Board and the Executive Board a dividend of 1.50 euros plus a bonus of 50 cent—together 2 euros per share.

The number of shares outstanding remained unchanged in 2006, we did not exercise our authority to purchase treasury shares and, therefore, MAN does not own any treasury stock at present.

Since the current authority to repurchase MAN shares will expire in mid-November 2007, we ask you at this annual meeting again to re-authorize us to acquire and use treasury stock for the statutory maximum period of 18 months as from today in order for MAN to maintain its scope of action and flexibility in future, too.

Let me now explain the background of some other major items on our AGM agenda:

In agenda item (7) we propose that the resolution adopted by the annual general meeting of June 3, 2005, to authorize the Executive Board, after first obtaining Supervisory Board approval, to issue convertible and/or warrant bonds be amended and that this amendment be incorporated into our bylaws accordingly. The purpose of this amendment is to clearly state that the June 3, 2005 authorization also includes the option to provide for a conversion obligation in the convertible or warrant bond terms.

Such a stipulation is standard capital market practice. MAN AG will thus be offered the option of raising near-equity debt—a move beneficial to MAN's external rating.

In AGM agenda item (9) we ask that you approve the execution on March 1, 2007, of a subordination and profit & loss transfer agreement between MAN AG as controlling parent and MAN Versicherungsvermittlung GmbH, its wholly-owned subsidiary. The purpose of this intercompany agreement is to contractually integrate MAN Versicherungsvermittlung GmbH with the Group and subordinate this subsidiary's management to MAN's. This move will effectively establish a tax group parent-subsidiary relationship as from January 1, 2007.

3. Strategy

3.1. New targets

Despite the congenial economy on our markets, we are continuing with our multifaceted plans for reducing costs and enhancing efficiency within the business areas. All in all, the MAN Group today has achieved a higher level of profitability. Nonetheless, we are measuring ourselves against the top performers in the market and for this purpose we must continue along the path taken.

As a consequence, the Executive Board has laid down new profitability targets for the period up to 2010: we are now aiming for a return on sales of 8.5 percent as average within one business cycle in combination with unabated high growth.

This means that in times of a strong economy we need to achieve a double-digit figure. According to our plans and in order to attain this new benchmark, we will have to implement structural improvements of 250 million euros over the coming years.

For the Group's ROCE we have targeted a minimum of 22 percent.

The ROS benchmark of 8.5 percent applies to all four business areas and must be achieved on average by 2010. At the same time, we have defined the essential measures intended to lead to such an upgraded profitability.

In the case of Commercial Vehicles, essential elements are an enhanced growth in, for instance, Central & Eastern Europe as well as improvements and expansions to our sales and service networks. We must boost our bus business's profitability considerably and, not least of all, our efficiency in the light- and medium-capacity truck ranges. An important platform in this context is the conversion of all truck programs to the modular Trucknology concept.

We are also outsourcing and subcontracting more work: for example, the Gustavsburg plant, where pressed parts are produced, is being contributed to an alliance with the auto industry supplier Hörmann Group. With its highly skilled workforce, this plant will then be able to ensure long term its necessary capacity utilization by obtaining more readily than to date contracts from outside parties.

At MAN Diesel, the integration and optimization of the production structures enjoy priority. At the same time, we intend to concentrate more closely on key components and core capabilities, as well as to rigorously expand the profitable service business worldwide.

In the rapidly growing Turbo Machinery area we are also emphasizing the expansion of the services business and further improvements to internal workflows and cost reductions.

Industrial Services has narrowed the focus within its business segments and achieved the second-highest return on sales within the Group. With a view to consolidating and further strengthening profitability, here, too, structures will again be refined and low-margin activities improved.

In all, I feel that we have set ourselves ambitious targets for both the Group and the individual business areas; in view of what we have so far achieved, I feel that these targets are realistic.

3.2. Strong corporate structure

Ladies and gentlemen, among the success factors accounting for the solid business performance in 2006 was the MAN Group's focus on the growth markets of transport, propulsion, and energy—in short, Transport-Related Engineering. The moves undertaken included the sale of MAN Roland Druckmaschinen and MAN Takraf as well as the planned disposal of Industrial Services' steel-trading business. In all and together with the divestments in 2005, MAN has thus shed non-core business with a sales volume of 3.6 billion euros and bolstered its profitability.

Today, MAN centers on commercial vehicles, diesel engines, and turbo machinery as well as industrial services. We have created a capable, sustainable and manageable structure and we have set up a solid base for further bankable growth.

3.3. Commercial vehicle market consolidation

Ladies and gentlemen, an important strategic issue which for some time now has increasingly preoccupied us, is the development of the commercial vehicle markets worldwide.
What used to be national truck markets is converging; their customers are getting bigger and more international. For manufacturers, this means more competition and higher demands on their distribution and service structures. At the same time, because of growing challenges regarding environmental protection, research and development expenditures are rising. Expanding into new markets also requires added outlays for local presence and for adapting the vehicles to regional requirements. In view of these factors, size is becoming more and more important for truck builders.

In Europe, MAN is among the three biggest manufacturers and in a position to strengthen this market share and grow through its own efforts. Nonetheless, it makes good sense to accelerate this process by bundling capabilities and resources in order to move forward at a quicker pace.

In September 2006, we therefore seized the initiative in order to rise to a new economy of scale together with our Swedish competitor Scania. Our aim was, by combining two strong brands with a common and efficient management structure, to create a powerful European Champion.

The Supervisory and Executive Boards therefore had resolved to submit to Scania stockholders a bid for the takeover of at least 90 percent of all Scania shares. The envisaged combination was approved unqualified by the EU Commission in December and the financing and funding of the deal were also secured. Moreover, the industrial logic behind our proposal met with broad approval.

Nonetheless, we failed to get Scania's major stockholders to accept our offer and timetable. When it became evident that the terms of the offering would not be achieved, we prematurely closed the period for submission in mid-January.

There are two aspects to the outcome of this process. On the one hand, we failed with our offer and with our concrete proposals. On the other, our industrial concept enjoys broad appreciation. Moreover, we have now joined the ranks of major Scania stockholders which include Volkswagen and Investor.

We are now faced with the joint search for a new way of combining Scania, the truck business of Volkswagen and MAN on an equal-ranking peer basis while each brand retains its identity. What we continue to envisage is the creation of an exchange-listed European Champion which would have improved financial and technological preconditions for growing on a global scale.

One of the two major Scania stockholders, Volkswagen AG, has meanwhile become one of our own major stockholders. Volkswagen management has repeatedly emphasized its strategic interest in the commercial vehicle business. We regard Volkswagen as a long-term, stable strategic stockholder and I feel, within this constellation, we have sound preconditions for arriving at a mutually acceptable solution, one in which all MAN stakeholders are winners, including, of course, you, our stockholders.

3.4. Expanding all the business areas

Ladies and gentlemen, irrespective of the efforts just mentioned, we are working closely on continuously strengthening organically and structurally our business areas and hence promoting their growth. All areas possess the potential of making sustainable and increasing contributions to our group results.

Here are a number of key aspects:

By 2010, the Commercial Vehicles business area is set to sell at least 110,000 units annually—100,000 trucks and 10,000 buses.

For our diesel engines, we have set ourselves a figure of 500 units. These include the four-stroke engines, mostly built at our own plants, whereas the MAN two-stroke marine diesels, worldwide predominant in their market, are being built under license by associates.

For MAN TURBO, we have set a sales target of 1.5 billion euros by 2010. Sales of this business area will for the first time in 2007 cross the billion euro threshold.

Industrial Services will also accelerate: on the basis of 1.4 billion euros sales in 2005, we have set ourselves a target of 2 billion euros by 2010.

For the plan period of 2005 to 2010, all in all this represents an annual growth of 10 percent for the MAN Group.

In order to be able to achieve this goal, we have launched a number of projects intended to amplify our presence on important growth markets:

In 2006 we started on the construction of a new truck assembly plant in Poland. Located in Kraków, it will commence production this year and—in the medium term—produce 15,000 heavy trucks annually for the growth regions of Central & Eastern Europe, Russia and the Middle East.

MAN FORCE TRUCKS, our joint venture in India, in which MAN owns a 30-percent stake, has already started on the production of heavy trucks whose engineering has been optimized for the markets of this region. The planned final capacity is 24,000 units annually.

Again in India, MAN Diesel has set up an engineering office where, networked with the Augsburg and Copenhagen locations, development work can progress around the clock.

Together with MAN Ferrostaal, MAN Nutzfahrzeuge has established in Mexico a bus assembly plant and marketing organization.

MAN TURBO is in the process of building a production plant in China. China has meanwhile grown into the biggest individual market for our turbo machinery business and this area is altogether our fastest growing unit. It has meantime achieved the critical mass and is delivering growing contributions toward the further development of the Group.

In Dubai and Beijing, we will shortly open MAN Houses and thus ensure a strong and prestigious presence for the MAN Group in these regions. This idea—mostly under the management of MAN Ferrostaal—will in future be introduced into further regions of the world.

3.5. Industrial Governance

An important ingredient in the success of our group is the rigorous enactment of the Industrial Governance leadership system. Within the framework of this program, we have meanwhile established an annual strategy process by means of which the strategic targets and measures are discussed and then defined. For senior management, we have carried out management audits with the result that the job rotation process has been stepped up and we have strengthened our management teams.

We have also created a capital-covered pension system and, with new arrangements for the variable compensation of management, we have introduced the right incentives to promote personal performance measured against agreed goals and the achievement of higher return ratios.

In addition, the controlling system has been thoroughly revamped and has now become much more efficient.

3.6. Sustainability

Ladies and gentlemen, next year the MAN Group will be 250 years of age. For a long time now, the name MAN has commanded great respect, in itself proof that the Group has always been run with a view to achieving sustainable success for all its stakeholders, otherwise we would not be here today.

There are three aspects to sustainability: economic responsibility, environmental stewardship, and corporate citizenship.

Our economic responsibility is based on exploiting growth opportunities and delivering commensurate results, in other words profitable growth. We have to offer the market dependable and innovative products which we manufacture and market through a capable and efficient organization.
In doing so, we are also able to create value for our stakeholders.

At the same time, economic success will in the long run not be viable unless we take into account the other aspects of sustainability. The recurring presence of MAN stock in the Dow Jones Sustainability Index indicates that we are moving in the right direction.

Environment
Ladies and gentlemen, the public debate on climate change has brought the environment once again closer to our attention. For us, this is nothing new or surprising. A striving for environmental protection, for ecologically compatible products, coincides at MAN largely with our customers' desire for cost-efficient products.

This is especially true of CO2 emissions that play such a role in the present debate. A large share of our expenditures has always been directed at engineering our products for improved fuel efficiency, economy and environmental compatibility.

At Commercial Vehicles, our D-20 common rail engine platform has laid the groundwork for us to comply with future emission standards above and beyond EURO 4 and EURO 5. This is also the platform for the engines built by our US associate Navistar, enabling us to meet the strict US codes.

Depending on customer wishes and the type of application, we supply the trucks with internal exhaust gas recirculation systems (EGR) without the need for an additional tank or alternatively with the established selective catalytic reduction (SCR) technique, with Adblue posttreatment.

The climate issue is also a source of vast opportunities for the MAN Group. With our developments to date and our innovative resources we regard ourselves as being perfectly geared to address the challenges ahead.

In the commercial vehicle sector we are developing, for instance, hybrid drives designed to significantly cut fuel consumption, especially in stop-and-go city traffic. The broad use of hybrid propulsion systems would be an important contribution toward lowering CO2 emissions in traffic.

Over a period of 12 months we have been operating a town bus with a hybrid propulsion system we have developed. This has demonstrably achieved fuel savings of between 20 and 25 percent in comparison to the best diesel system. We have meantime refined this technology and incorporated it into a new bus that is making its public debut today in front of this building at the entrance. We are fine-tuning this technology and will make it ready for series production.

With its turbo machines and chemical reactors, MAN builds the key components for producing synthetic diesel for instance from natural gas or biomass. The process is known as GTL (gas to liquid) or BTL (biomass to liquid). We regard BTL as a significant approach in producing from renewable sources a fuel that is CO2 neutral. Almost all kinds of biomass may be used and per cultivation hectare, such biomass is far more productive than today's biofuels.

The world's biggest GTL complex is currently under construction in Qatar; the turbo machines and reactors are being supplied by MAN. The first BTL reactors have been delivered to Choren Industries where they constitute the core components of the world's first industrial-scale BTL complex which is presently being constructed in Freiberg, Saxony.

To summarize: we are serious about our responsibilities and our engineering efforts are contributing toward a reduction in CO2 emissions.

Corporate citizenship—our responsibility to society
At MAN good corporate citizenship includes to provide attractive jobs and apprenticeships and prevent discrimination and corruption.

I'd like to highlight some examples:

- Every year we hire over 600 apprentices, mainly for them to acquire technical skills. This number is more than we ourselves actually need and continues to be an exceptionally high proportion of the workforce.

- Among our objectives is to raise the proportion of female workforce members. For this purpose we have concluded works agreements for equal opportunities between men and women. We're looking into day-time child-care options and we're endeavoring to promote women to management positions. In this regard, we've taken a small step in the right direction. In 2004, there were only two women among the Group's senior executives, in 2006 there were seven and one of these is an Executive Board member of MAN Nutzfahrzeuge.

- In order to establish closer ties with institutes of higher education and to get university graduates more interested in MAN, we've established partnerships. Together with the Munich University of Technology we have, for instance, developed a new scholarship program by which we will be reimbursing around 100 students the recently introduced tuition fees.

- Likewise important is correct conduct by employees within the Group and in the markets in the interests of maintaining fair competition. Hence our Code of Conduct that applies to all MAN Group employees and that specifies rules for acceptable behavior according to ethical and legal norms.

For this purpose we have set up a Compliance Organization with central and local points of contact. The Compliance Board Chairman reports to me directly.

To make the system even more effective we recently decided to appoint two external ombudsmen to whom infringements are reportable. They then examine the information and pass it on if it is to be taken seriously.

As you can see, ladies and gentlemen, compliance is an issue we are serious about. After all, we don't want to foolishly risk MAN's well-deserved reputation.

4. Prospects

Now I will talk about the current business situation and what lies ahead.

The MAN Group took off to a flying start at the beginning of the present year. As reported a few days ago, our Q1/2007 performance was a seamless continuation of the success scored in 2006.

Order intake climbed 23 percent versus the first quarter of 2006 to 4.8 billion euros; sales surged 15 percent to 3.3 billion euros. The operating profit of 318 million euros earned during this quarter was up by 51 percent, equivalent to a return on sales of 9.6 percent; this is more than two percentage points higher than a year ago. Most of the improvement was due to the Commercial Vehicles business area whose Truck unit generated a return on sales in the region of ten percent.
We meanwhile have the figures for April and the news is again good!

For all of 2007, we expect order intake to maintain this high level; sales are likely to advance around ten percent.

As to operating profit, we are again predicting a growth that outpaces sales and this means that our return on sales will stay at the level of the first quarter.

Ladies and gentlemen, in this its 249th year, MAN is therefore heading for a new record. 2008 will see the 250th anniversary of the MAN Group that started out as St. Antony Hütte in Oberhausen. MAN has had an eventful history, with many ups and downs, and the tremendous transition from an ironworks into a leading machinery and motor vehicle manufacturer. A successful history that we intend to perpetuate.

Ladies and gentlemen, MAN is moving in the right direction. The Group is in good shape and growing. You can be certain that we will rigorously apply every effort to assure the MAN Group's successful future in the interests of all stakeholders—customers, stockholders, employees, and society.

Thank you for your attention!

MAN AG
The Executive Board

The speech given by Håkan Samuelsson at the annual general meeting will be available at www.man.eu.

The MAN Group is one of Europe's leading motor vehicle, engine and mechanical engineering groups with annual sales of some €13 billion. As a supplier of trucks, buses, diesel engines, turbo machinery and industrial services, MAN employs a workforce of around 50,000 worldwide. The MAN business areas hold leading positions in their markets. The parent, MAN AG, Munich, is listed in the DAX (German Stock Index) which comprises the thirty leading stock corporations in Germany.